Insurance Company shall be required by Condition 5 to establish a new funding medium for any Variable Contract if any offer to do so has been declined by the vote of a majority of contract owners who are materially and adversely affected by the irreconcilable material conflict.

7. A Board's determination of the existence of an irreconcilable material conflict and its implications will be made known promptly and in writing to all Participating Entities.

8. Participating Insurance Companies will provide pass-through voting privileges to all Variable Contract owners so long as the Commission continues to interpret the 1940 Act as requiring pass-through voting privileges for variable annuity and variable life insurance contract owners. Accordingly, the Participating Insurance Companies will vote shares of the Trust held in their Separate Accounts in a manner consistent with voting instructions timely received from contract owners. Each Participating Insurance Company will vote shares of the Trust held in the Participating Insurance Company's Separate Accounts for which no voting instructions from contract owners are timely-received, as well as shares of the Trust which the Participating Insurance Company itself owns, in the same proportion as those shares of the Trust for which voting instructions from contract owners are timely-received. Participating Insurance Companies will be responsible for assuring that each of their Separate Accounts participating in the Trust calculates voting privileges in a manner consistent with other participation Insurance Companies. The obligation to calculate voting privileges in a manner consistent with all other Separate Accounts investing in the Trust shall be a contractual obligation of all Participating Insurance Companies under their agreements governing their participation in the trust. Each Qualified plan will vote as required by applicable law and governing Plan documents.

9. The Trust will comply with all provisions of the 1940 Act requiring voting by shareholders (which, for these purposes, shall be the persons having a voting interest in the shares of the Trust), and, in particular, the Trust will either provide for annual meetings (except to the extent that the /Commission may interpret Section 16 of the 1940 Act not to require such meetings) or comply with Section 16(c) of the 1940 Act (although the Trust is not one of the trusts described in Section 16(c) of the 1940 Act), as well as with Section 16(a) of the 1940 Act, and, if and when applicable, Section 16(b) of the 1940 Act. Further, The Trust will act in accordance with the Commission's interpretation of the requirements of Section 16(a) with respect to periodic elections of trustees and with whatever rules the Commission may promulgate with respect thereto.

10. The Trust will notify all Participating Insurance Companies that Separate account prospectus disclosures regarding potential risks of mixed and shared funding may be appropriate. The trust will disclose in the prospectuses of the Series that: (a) The Trust is intended to be a funding vehicle for all types of variable annuity and variable life insurance contracts offered by various insurance companies and for certain qualified pension and retirement plans; (b) material irreconcilable conflicts possibly may arise; and (c) the Trust's Board will monitor events in order to identify the existence of any material irreconcilable conflicts and to determine what action, if any, should be taken in response to any such conflict.

11. If, and to the extent that, Rules 6e–2 or 6e–3(T) are amended (or if Rule 6e–3 under the 1940 Act is adopted) to provide exemptive relief from any provision of the 1940 Act or the rules thereunder with respect to mixed or shared funding on terms and conditions materially different from any exemptions granted in the order requested by Applicants, then the Trust and/or the Participating Entities, as appropriate, shall take such steps as may be necessary to comply with Rule 6e–2 or 6e–3(T), as they may be amended, and Rule 6e–3, as it may be adopted, to the extent such rules are applicable.

12. At least annually, the Participating Entities shall submit to the Board such reports, materials or data as the Board reasonably may request so that the Board may carry out fully the obligations imposed by the conditions contained in these conditions. Such reports, materials and data shall be submitted more frequently if deemed appropriate by the Board. The obligations of the Participating Entities to provide these reports, materials and data to the Board, when the Board so reasonably requests, shall be a contractual obligation of all Participating Entities under their agreements governing participation in the Trust.

13. All reports received by a Board of potential or existing conflicts, and all Board action with regard to (a) determining the existence of a conflict; (b) notifying Participating Entities of a conflict; and (c) determining whether any proposed action adequately remedies a conflict, will be properly recorded in the minutes of the Board or other appropriate records. Such minutes or other records shall be made available to the Commission upon request.

Conclusion

For the reasons summarized above, Applicants assert that the requested exemptions are appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the 1940 Act.

For the Commission, by the Division of Investment Management, pursuant to delegated authority.

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 97–24378 Filed 9–12–97; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–39028; File No. SR–CHX–97–15]

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Order Granting Approval to Proposed Rule Change Relating to a Specialist's De-Registration in an Issue

September 8, 1997.

I. Introduction

On June 4, 1997, the Chicago Stock Exchange, Inc. (''CHX'' or ''Exchange'') submitted to the Securities and Exchange Commission (''Commission''), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'')[1] and Rule 19b–4 thereunder,[2] a proposed rule change to amend Article XXX, Rule 1, Interpretation and Policy .01 of the CHX Rules, to change a policy of the Exchange's Committee on Specialist Assignment and Evaluation (''CSAE'') relating to the time periods for which a co-specialist must trade a security before deregistering as the specialist for the security. This policy would be in effect for a one year pilot program.

Notice of the proposed rule change, together with the substance of the proposal, was published for comment in Securities Exchange Act Release No. 38882 (July 28, 1997), 62 FR 41981 (August 4, 1997). No comments were received on the proposal. This order approves the proposed rule change.

II. Description

The Exchange's CSAE is responsible for, among other things, appointing

[1] 15 U.S.C. § 78s(b)(1).

[2] 17 CFR 240.19b–4.

specialists and co-specialists [3] and conducting de-registration proceedings in accordance with Article XXX of the Exchange's rules.[4] As described in existing Interpretation and Policy .01 of Rule 1 of Article XXX, seven circumstances may lead to the need for assignment or re-assignment of a security. One such circumstance is by specialist request.

Currently, the CSAE ''will initiate a re-assignment proceeding if it believes that such action is called for.'' [5] Using this standard, the CSAE's current policy is to require a co-specialist to trade an issue awarded in competition [6] for a two year period, and to trade an issue awarded without competition for a six-month period, before permitting a co-specialist to de-register in the issue.

The CHX proposes to amend this policy for a one year pilot program. Specifically, the proposal would change the time periods for which a co-specialist must trade an issue before the CSAE will, in general, approve a co-specialist's request to deregister in an issue.[7] These time periods would vary depending on whether the issue was awarded in competition or without completion and whether another specialist will assume the responsibility to trade the issue.

Under the proposed rule change, for a security that was awarded to a co-specialist in competition, such co-specialist will be required to trade the security for one year before being able to deregister in the security if no other specialist will be assigned to the security after posting.[8] The two year time period currently in place for an intra-firm transfer of such issues (*i.e.*, transferring the issue to another co-specialist in the same specialist unit) will remain. For a security that was awarded to a co-specialist without competition, such co-specialist will be required to trade the security for a three month period before being able to deregister in the security if no other specialist will be assigned to the security after posting. The six month time period currently in place for an intra-firm transfer of such issues will remain.

Whether or not the security was awarded in competition, the effective date of a specialist's deregistration in an issue for which no specialist will be assigned after posting will be the first business day of each calendar quarter; provided, however, that the applicable time period for which a specialist is required to trade an issue must have been satisfied prior to such date.

Whether or not the security was awarded in competition, in general, the CSAE will require specialists to provide sending firms at least 15 days advance notice of a its intention to de-register in the issue.

III. Discussion

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b).[9] Specifically, the Commission believes the proposal is consistent with the Section 6(b)(5) requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, and, in general, to protect investors and the public.[10]

The Commission believes that the new policy, as proposed, should result in a more accurate balance between the interests of consistency and continuity with respect to the trading of an issue by a particular specialist and that of a specialist in having the flexibility to deregister in an unprofitable issue. In this regard, the Commission believes that the proposed rule change will still preserve an appropriate time period for which the specialist cannot deregister in an issue. For a security that was awarded to a co-specialist in competition, such co-specialist will be required to trade the security for one year before being able to deregister in the security if no other specialist will be assigned to the security after posting. For a security that was awarded to a co-specialist without competition, such co-specialist will be required to trade the security for a three month period before being able to deregister in the security if no other specialist will be assigned to the security after posting.

The Commission also believes that the proposed new policy may help to encourage more specialists and co-specialists to apply for additional issues. The Commission notes that under the current policy, a specialist or co-specialist may be reluctant to apply to become a specialist in an issue because of the long time period for which it must hold the security before deregistering. By reducing the current time periods for which a specialist or co-specialist must trade a security before being allowed to deregister in that security, when no other specialist will be assigned to that security, the proposal may reduce the risk and exposure that is attendant with registering for a particular issue. In turn, the Commission believes that the proposal could increase the overall liquidity and depth of the CHX market by encouraging specialists to register in additional securities.

The Commission further believes that the proposed pilot provides adequate notice to order entry firms of the change in the status of an issue, by providing that such firms be given at least 15 days advance notice of a co-specialist's intention to deregister in the issue. In addition, the effective date of a specialist's deregistration will be the first business day of each calendar quarter; provided, however, that the applicable time period for which a specialist is required to trade an issue must have been satisfied prior to such date.

The Commission believes that approving the proposed rule change as a pilot program is reasonable under the Act because it will serve to protect investors and the public interest by allowing the CHX time to collect data on its effectiveness and to determine whether any modifications are necessary. The pilot will expire on September 8, 1998. The Commission requests that the CHX submit a report on the effectiveness of the pilot program by July 8, 1998. The report should state the Exchange's views on the effectiveness of the policy change, including, but not limited to, whether there has been an increase in the

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[3] A specialist is a ''unit'' or organization which has registered as such with the Exchange under Article XXX, Rule 1. A co-specialist is an individual who has registered as such under Article XXX, Rule 1. *See* CHX Rules Article XXX, Rule 1, Interpretation and Policy .01.4(a).

[4] *See* CHX Rules Article IV, Rule 4.

[5] *See* CHX Rules Article XXX, Rule 1, Interpretation and Policy .01.2.

[6] In this context, ''in competition'' means that more than one specialist had applied to be the specialist in the issue.

[7] The Exchange stated its intention to have the new policy apply anytime there will not be another specialist assigned to the issue, such as if the security was to be returned to the cabinet, put in the cabinet for the first time, or traded by a lead primary market maker pursuant to CHX Rules Article XXXIV, Rule 3. *See* Amendment No. 2, *supra* note 1. Cabinet securities are those securities which the Board of Governors designates to be traded in the cabinet system because in the judgment of the Board such securities do not trade with sufficient frequency to warrant their retention in the specialist system. *See* CHX Rules Article XXVIII, Rule 6. For a more detailed explanation of the operation of the cabinet system, see CHX Rules Article XX, Rule 11.

[8] In this context, posting means that all specialists are put on notice that the security in question is available for reassignment. *See* CHX Rules Article XXX, Rule 1. Telephone conversation between David Rusoff, Attorney, Foley & Lardner, and Heather Seidel, Attorney, Division of Market Regulation, Commission, on July 24, 1997.

[9] 15 U.S.C. § 78f(b).

[10] In approving this rule, the Commission notes that it has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

number of specialists or co-specialists who register in additional securities. The report should also include data on (1) the rate of deregistration at the specialist's request, and (2) the number of specialists applying to register in securities that do not have a specialist already assigned, and compare that data for the pilot year to the prior year. In addition, the Commission requests that the CHX submit by July 8, 1998, any proposed rule change pursuant to Rule 19b–4 under the Act [11] to further extend or seek permanent approval of the pilot program.

IV. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,[12] that the proposed rule change (SR–CHX–97–15) is approved on a one year pilot basis through September 8, 1998.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[13]

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 97–24305 Filed 9–12–97; 8:45 am]

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[11] 17 CFR 200.19b–4.

[12] 15 U.S.C. § 78s(b)(2).

[13] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–39031; File No. SR–DTC–97–07]

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Disclosure Requirements for Transactions Involving Inflation Indexed Securities Through the Institutional Delivery System

September 8, 1997.

Pursuant to Section 19(b)(1) [1] of the Securities Exchange Act of 1934 (''Act''), notice is hereby given that on May 19, 1997, The Depository Trust Company (''DTC'') filed with the Securities and Exchange Commission (''Commission'') the proposed rule change as described in Items I, II, and III below, which items have been prepared primarily by DTC. The Commission is publishing this notice to solicit comments from interested persons on the proposed rule change.

[1] 15 U.S.C. 78s(b)(1).

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The purpose of the proposed rule change is to amend Section M of DTC's participant operating procedures in accordance with certain disclosure requirements for transactions involving inflation indexed securities processed through DTC's Institutional Delivery (''ID'') system.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, DTC included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. DTC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.[2]

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

PSA The Bond Market Trade Association (''PSA'') on behalf of its members and all other registered brokers and dealers, received no-action and interpretive relief from the Commission and the Treasury (collectively ''interpretive relief'') [3] regarding the application of certain regulations to inflation indexed securities issued by the U.S. Treasury Department (''Treasury''). The purpose of the proposed rule change is to enable broker-dealers that use DTC's ID system for generating confirmations for their customer transactions to comply with the disclosure requirements set forth in the interpretive relief.

The interpretative relief requires broker-dealers to disclose in confirmations for inflation indexed securities that yield to maturity may vary due to inflation adjustments or provide disclosure to similar effect. A broker-dealer using the ID system can enter data in the security type field identifying the security as an inflation indexed security by using a designated acronym (*i.e.,* ''ITS''). Under the proposed rule change, DTC will add procedures to its ID system to provide that when the designated acronym identifying an inflation indexed security appears in the security type field of the ID confirmation, the required disclosure will be deemed to be a part of the ID confirmation for that transaction.

The interpretative relief also requires confirmations involving inflation indexed securities for when-issued transactions and for transactions in the Treasury's Separate Trading of Registered Interest and Principal of Securities (''STRIPS'') program to disclose the real yield (*i.e.,* nominal yield not adjusted for inflation) for the securities.[4] Under the proposed rule change, a broker-dealer using the ID system to send confirmations for such transactions will be able to disclose the real yield by entering that figure either in the yield field or in the special instructions field of trade data submitted to the ID system.

DTC believes the proposed rule change is consistent with the requirements of Section 17A of the Act [5] and the rules and regulations thereunder because the proposed rule change will assure the safeguarding of securities and funds which are in the custody or control of DTC by facilitating the confirmation of transactions in inflation indexed securities through the use of DTC's ID system.

B. Self-Regulatory Organization's Statement on Burden on Competition

DTC perceives no impact on competition by reason of the proposed rule change.

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others

The proposed rule change was developed through discussions with PSA acting on behalf of its members and with several participants. Written comments from DTC participants or others have not been solicited or received on the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(iii) [6] of the Act and pursuant

[2] The Commission has modified the text of the summaries prepared by DTC.

[3] Letter from Robert L.D. Colby, Deputy Director, Division of Market Regulation, Commission, to Paul Saltzman, Senior Vice President and General Counsel, PSA The Bond Market Association, (January 17, 1997); letter from Richard L. Gregg, Commissioner, Bureau of the Public Debt, Department of the Treasury, to Michael A. Macchiaroli, Associate Director, Division of Market Regulation, Commission (January 17, 1997).

[4] PSA The Bond Market Association Trading Practice Guidelines for Inflation Indexed Securities (December 18, 1996).

[5] 15 U.S.C. 78q–1.

[6] 15 U.S.C. 78s(b)(3)(A)(iii).